

Wall Street Journal Editorial, March 25, 2009

Diplomacy has no chance without tougher energy sanctions.

As a general rule, economic sanctions are a poor foreign policy instrument: hard to enforce (think Burma), prone to corruption (think Oil for Food), rarely effective (think Cuba). But in the case of Iran, let's make an exception.

We say this after five years of futile diplomatic efforts -- spearheaded by the Europeans and backed by the Bush Administration -- to persuade Iran to abandon its nuclear programs and comply with binding U.N. Security Council resolutions. Now the only thing standing between the mullahs and a bomb is either punitive sanctions or a military strike, probably Israeli, which could engulf the Middle East in a regional war. Which option do you prefer?

So here's a fact: Despite being a leading oil exporter, Iran imports roughly 40% of its gasoline because it lacks adequate domestic refining capacity. Any cut-off in supply would do immediate damage to the fragile Iranian economy and could bring about social unrest, as happened in 2007 after the regime imposed gasoline rations. Here's another fact: Iran is supplied with gasoline by a mere handful of foreign companies, all of which do substantial business in the United States.

Final fact: There is a growing bipartisan consensus in favor of gasoline sanctions. As candidate Barack Obama put it in the second Presidential debate last October, "If we can prevent [Iran] from importing the gasoline they need and the refined petroleum products, that starts changing their cost-benefit analysis [about the advantages of a nuclear arsenal], that starts putting the squeeze on them."

Well, amen to that. So it's too bad that as President, Mr. Obama is now putting tougher sanctions off indefinitely in favor of pushing the rock of diplomacy up the mountain once again. He's likely to be strung along like George W. Bush and the Europeans were, allowing the mullahs to get closer to a bomb. Diplomacy will have no chance without the threat of sticks, so Congress could help by passing two significant pieces of legislation affecting Iran's energy

supply.

One of them, an amendment to the Senate omnibus appropriations bill from Arizona Republican Jon Kyl, would forbid federal funds from going to companies involved in Iran's energy industry. On the House side, Republican Mark Kirk and Democrat Rob Andrews sponsored complementary legislation in 2007 that would have expanded the Iran Sanctions Act to companies selling refined petroleum to Iran. The value of this latter legislation is partly symbolic, since no company has ever actually been sanctioned under the Iran Sanctions Act. But symbolism can also have its practical uses: The mere existence of the act has helped persuade a number of energy multinationals, such as France's Total, to stop investing in Iran.

As for the Kyl Amendment, it takes aim at companies like the Swiss-Dutch oil trading firm Vitol, currently Iran's largest supplier, which has a contract with the U.S. Department of Energy to help fill the Strategic Petroleum Reserve. Vitol, which in 2007 pleaded guilty to grand larceny charges in New York state court for its role in Oil for Food, is also building a \$100 million fuel-storage facility in Florida. Just by the way.

The good news is that Iran's suppliers are starting to get the message. Until recently, Indian giant Reliance Industries provided Iran with as much as 25% of its gasoline imports, even as it was building a giant refinery in India with over \$500 million in loan guarantees from the U.S. Export-Import Bank. In December the guarantees came to the attention of Mr. Kirk and Democrats Howard Berman and Brad Sherman, who wrote a letter of protest to Ex-Im Bank President James Lambright. The letter later leaked to the Indian press, and, last month, Reliance did not supply Iran, according to the International Oil Daily.

Reliance's departure will likely not affect Iran's gasoline imports, since other suppliers can pick up the slack. But the number of firms willing to incur legal or reputational risks to supply Iran is limited, especially given the relatively small size of its domestic market. Would-be suppliers could also work through proxies, but again this raises costs and risks both for them and Iran, where the economy is already under severe strain from the collapse of oil prices and Mahmoud Ahmadinejad's inflationary economic policies.

Critics of gasoline sanctions argue that they amount to a game of whack-a-mole, and to some extent that's true. But the goal of the sanctions isn't to create an airtight regime so much as to sharply raise the costs to Iran for pursuing its nuclear programs. "This is no silver bullet but it may be silver shrapnel," says Mark Dubowitz of the Foundation for Defense of Democracies, a

Washington, D.C.-based think tank that has brought the idea of gasoline sanctions to political attention.

With Iran now fast approaching the nuclear threshold, an Administration that doesn't want bullets to fly needs more than diplomacy. The only way Iran's regime is going to stop its nuclear program is if it feels some pain it can believe in.